STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 7, 2004

TO: ALL PARTIES OF RECORD IN RULEMAKING 01-08-028

Decision 04-12-019 is being mailed without the Concurrence of Commissioner Loretta M. Lynch. The Concurrence will be mailed separately.

Very truly yours,

/s/ ANGELA K. MINKIN, Chief
Administrative Law Judge

ANG/eap

Attachment

Decision D.04-12-019 December 2, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Future Energy Efficiency Policies, Administration, and Programs.	Rulemaking 01-08-028 (Filed August 23, 2001)

ORDER GRANTING PETITION TO MODIFY DECISION 03-12-060

This order grants, subject to certain modifications, the joint petition to modify Decision (D.) 03-12-060 filed on October 7, 2004 by San Diego Gas and Electric Company (SDG&E), Southern California Gas Company (SoCalGas) and Pacific Gas and Electric Company (PG&E). The joint petition seeks authority for each utility to increase spending on natural gas energy efficiency programs funded by existing natural gas public purpose program surcharges. This order grants increased funding for natural gas energy efficiency programs in the amount of $7.96 million for PG&E, $1.362 million for SDG&E, and $10.433 million for SoCalGas.

1. Background and Summary of Petition

The Commission in D.03-12-060 established budgets and savings goals for each of the three petitioners for their natural gas energy efficiency programs. The Commission has embarked on an increasingly aggressive energy efficiency program in recent years in response to the energy crisis and in recognition of the cost-effectiveness and environmental benefits of energy efficiency programs in California. In Rulemaking 04-01-025, the Commission has also made a commitment to developing a comprehensive natural gas strategy for California that would promote system reliability and forestall shortages in future years.

Petitioners state that they are motivated to increase funding for natural gas energy efficiency programs because of dramatic increases in natural gas prices in recent months and because of concerns that current levels of production may not be adequate to meet demand in the near future. According to petitioners, their proposals in combination would save California 8.7 million therms. Petitioners state their proposals are consistent with Commission policy and findings. They propose to provide the Commission with program implementation proposals and related work papers soon after the Commission's authorization of increased funding.

Each utility's proposal is described separately below.

2. SDG&E

SDG&E would increase its natural gas energy efficiency budget of $12.488 million authorized in D.03-12-060 to $13.714 million (excluding $0.136 million for non-utility programs) and increase its 2004-05 savings goals from 468,686 therms to 1,008,009 therms. Its program spending would focus on two existing programs, the Single Family Rebates and Express Efficiency and also on customer awareness. It would offer third party implementers 10% of the total requested additional funds of $1.362 million to any of the authorized 2004-2005 partnership/non-utility programs that could realize additional energy savings on a first-come basis for the period prior to April 1, 2005. Funds remaining after that time would be added to SDG&E's Single Family Energy Efficiency Rebate program. SDG&E would use existing gas public purpose program (PPP) funds for these additional efforts and would seek a gas surcharge increase in the future, if required.

3. SoCalGas

SoCalGas proposes to increase its authorized natural gas energy efficiency budget from $24.373 million to $33.762 million (excluding $1.043 million for non-utility programs), increasing its savings goals from 11.472 million therms to 15.447 million therms. SoCalGas would concentrate its increased program efforts for customer awareness, the Single Family Rebate Program, the Multifamily Rebate Program, the California Energy Star New Homes Program, the Nonresidential Financial Incentive Program, and the Express Efficiency Program. These programs provide incentives for energy efficient appliances, building design, and heating equipment. Like SDG&E, SoCalGas would make 10% of the total requested additional funding of $10.433 million available through April 2005 to any of the 2004-2005 non-utility program implementers who are already implementing energy efficiency programs. SoCalGas proposes to use available funds from programs implemented prior to l998 to fund these incremental efforts.

4. PG&E

PG&E proposes to increase its authorized natural gas energy efficiency budget of $104.459 million to $111.696 million (excluding $0.724 million for non-utility programs), and increase its savings goals from 12.677 million therms to 16.862 million therms. PG&E would increase funding for its rebate programs, Single Family Rebates, Multifamily Rebates, Express Efficiency, Standard Performance Contract, and Savings By Design. PG&E would provide 10% of its requested additional funding of $7.237 million to any of the currently approved partnerships or 2002-2003 non-utility programs. To fund these additional efforts, PG&E asks the Commission for authority to increase its gas PPP surcharge to be effective January 1, 2005 and pursuant to its advice letter filed before October 31, 2004.

5. Comments of Parties

Several parties filed comments on the joint petition: the Office of Ratepayer Advocates (ORA) with The Utility Reform Network (TURN), Natural Resources Defense Council (NRDC), and SESCO.

TURN and ORA support the petition, believing it to be consistent with Commission objectives and reasonable. They make a few recommendations:

(1) Reconsider rebate levels to make sure they are high enough to attract participants but not higher than needed in order to maximize participation. Specifically, TURN and ORA would reduce the rebate for High Performance Windows from $1/square foot to $.50/square foot. They support reductions already proposed by the utilities.

(2) Target funding to most cost-effective programs. Specifically, TURN and ORA would have SoCalGas reduce the budget for the Energy Star New Homes Program – which has a very low benefit-cost ratio -- to $.5 million and increase the budget for Express Efficiency program – which has a relatively high benefit-cost ratio -- to $1.29 million.

(3) Utility program implementation plans and workbooks should be updated within ten days of the Commission's order.

(4) Energy Division, not the utilities, should select which of the non-utilities should receive incremental gas funding. However, ORA and TURN also recognize the unanticipated workload and small pool of funding at stake associated with the selection process; hence, in the alternative, they recommend that the utilities assist in this process by evaluating non-utility proposals for cost-

effectiveness, and program success. The utilities would submit their recommendations to Energy Division for final approval.

(5) TURN and ORA would allocate unused funds to utility gas PPP accounts rather than allocate them arbitrarily to utility programs.

NRDC supports the joint petition as well. It makes several minor suggestions. It would have the Commission adopt savings goals for non-utility programs of 837,000 therms (based on 440 therms per $1,000 invested), which is comparable to the proportional savings that would be achieved by the utilities' programs. It also raises concerns with how SDG&E would choose third parties for additional program funding and suggests specific criteria be applied rather than a "first come first served" approach.

SESCO generally supports the joint petition but makes a few suggestions. It raises a concern that the amount SDG&E seeks is too small, suggesting an increase to $2.2 million. SESCO would apply the additional funding to Multifamily Rebates, because of their current success rate and cost-effectiveness. It recommends allocating 20% to non-utility companies rather than the 10% proposed by the joint petition. SESCO shares the concern raised by ORA and TURN that the program dollars be allocated to the most cost-effective programs. It suggests that if the Commission wishes to focus on near term savings, it should exclude allocation of incremental funding to Residential and Nonresidential New Construction and the Large Commercial & Industrial (C&I) Standard Performance Contract Program. SESCO explains that, because of the long lead-time associated with these projects, they provide no energy savings in the short term and longer term energy savings are uncertain because of the risks associated with construction projects. SESCO proposes that the administrative costs associated with the new funding be limited to the level approved in D.03-12-060, which is 7%.

6. Discussion

We commend the utilities for taking the initiative to augment their natural gas programs for the coming winter season. We also appreciate the parties' thoughtful responses, which they presented with a very short time period after the filing of the joint petition and some of which we adopt here.

Overall, we agree that significant increases in wholesale gas prices justify additional spending in this area. We adopt the utilities' proposals with several exceptions or conditions recommended by commenting parties. All of the changes we adopt below are motivated by our desire to assure the most cost-effective use of program funds and the improvement of near term gas reliability. We therefore adopt the proposals of the joint petition with the following changes:

(1) Rebates for High Performance Windows shall be reduced from $1/square foot to $.50/square foot for Single Family Rebate Program. For Multi-family Rebate Program, the rebate level shall be set between $1/square foot and $0.50/square foot.

(2) The budget for SoCalGas' Energy Start New Homes Program shall be reduced to $.5 million and the budget for Express Efficiency program shall be increased to $1.29 million. The associated goals for these programs shall be adjusted proportionately with these changes.

(3) Utility program implementation plans and workbooks shall be updated within ten days of the effective date of this order, through the Energy Efficiency Groupware application (EEGA) as change notification order;

(4) Within 5 days of the effective date of this order, the utilities shall solicit proposals by entities that are currently implementing 2004-2005 Commission-

approved natural gas energy efficiency programs to increase their funding. The utilities shall set aside at least 10% of funding as proposed for this purpose and shall provide non-utility entities 15 days to respond to the solicitation. Each utility shall review the proposals and select programs that are cost-effective and provide reliable, near term gas savings. The utilities shall submit their recommendations for funding non-utility proposals, including justification for selection, to the Commission's Energy Division within 30 days of the effective date of this order. The Energy Division should make its final recommendations to the assigned Administrative Law Judge (ALJ) for final approval in consultation with the assigned Commissioner. After selection, implementers will submit revised program implementation plans through EEGA as change orders. Funds authorized herein that are not allocated to non-utilities as of February 1, 2005 shall be credited to utility gas PPP accounts and shall not be allocated to utility programs without further authorization of the Commission.

(5) Funding shall be reduced by half for programs requiring the completion of long term construction projects, such as those in the Residential and Nonresidential New Construction and the Large C&I Standard Performance Contract Program. The target goals for each affected program shall be adjusted proportionately with these changes. PG&E shall have the discretion to re-allocate the reduced amounts to either Express Efficiency or Multi-family or both, with goals adjusted proportionately with the goals for these programs.

(6) Administrative costs associated with the incremental funds authorized herein shall be limited to 7% of the incremental amounts authorized herein. Yet we feel the administrative costs for incremental energy efficiency funding, as provided in this decision, should be *de minimus*. As such, we encourage the

utilities to allocate as much funding toward direct implementation costs as possible.

We expect the utilities to closely coordinate their consumer awareness campaign efforts with the statewide marketing and outreach programs for a more cost-effective marketing.

7. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on November 22, 2004 and reply comments on November 29, 2004.

8. Assignment of Proceeding

Susan P. Kennedy is the assigned Commissioner and Kim Malcolm and Meg Gottstein are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. Increases in natural gas prices and the Commission's stated policy to pursue improved gas supply reliability justify increases to natural gas energy efficiency budgets, as proposed by the joint petition.

2. The need for near-term energy efficiency efforts and associated energy savings would be best served by increasing, by a certain level, funding for programs that provide near-term energy savings rather than those with longer payback periods.

3. The Commission has not approved a process or criteria for the utilities' selection of funding for third party entities.

4. PG&E requires an increase to its gas PPP surcharge in order to provide the additional program funds authorized herein.

5. Utility monthly reports on the progress of their energy efficiency programs may provide useful information to the interested public.

Conclusions of Law

1. The Commission should approve the joint petition with the exceptions and conditions set forth herein.

2. The Energy Division and Assigned ALJ rather than the utilities should determine the disposition of additional funding allocated to third party entities.

3. Incremental funding adopted herein should be allocated to the most cost-effective programs that would provide near-term gas savings.

4. In order to promote maximum benefit of incremental program funding, the utilities should be ordered to submit revised program implementation plans and workbooks, consistent with this order, within 10 days of the effective date of this order.

5. In order to promote cost-effective use of energy efficiency funds, it is reasonable to limit the utilities' spending on administrative costs to 7% of the incremental funding authorized herein. Yet we feel the administrative costs for incremental energy efficiency funding, as provided in this decision, should be *de minimus.* As such, we encourage the utilities to allocate as much funding toward direct implementation costs as possible.

6. PG&E should be authorized to increase its gas PPP surcharge by way of advice letter, as it requests in the joint petition.

7. The utilities should make available their monthly energy efficiency reports to any party requesting them.

O R D E R

1. The Petition to Modify ("Joint Petition") Decision 03-12-060 is granted to the extent set forth herein and with the conditions and exceptions described in Ordering Paragraph 2.

2. Pacific Gas and Electric Company (PG&E) shall supplement its Advice 2585-G dealing with its Natural Gas Public Purpose Program Surcharges for 2005 by an amount sufficient to enable it to recover the increased funding of $7.96 million authorized herein through its gas Public Purpose Program surcharge, effective January 1, 2005, as described in Attachment II of that advice letter.

3. PG&E, San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) shall make available their monthly energy efficiency program reports to any interested party.

4. SDG&E, SoCalGas, and PG&E shall implement their respective proposals, as set forth in their joint petition, with the following exceptions and conditions:

(a) Rebates for High Performance Windows shall be reduced from $1/square foot to $.50/square foot for Single Family Rebate Program. For Multi-family program, the rebate level shall be set between $1/square foot and $0.50/square foot.

(b) The budget for SoCalGas' Energy Star New Homes Program shall be reduced to $.5 million and the budget and the budget for Express Efficiency program shall be increased to $1.29 million. The associated target goals for these programs shall be adjusted proportionately with these changes.

(c) Utility program implementation plans and workbooks shall be updated and submitted to the Commission's Energy Division within ten days of the effective date of this order, through EEGA as change notification order;

(d) Within 5 days of the effective date of this order, the utilities shall solicit proposals by entities that are currently implementing 2004-2005 Commission-approved natural gas energy efficiency programs to increase their funding. The utilities shall set aside at least 10% of funding as proposed for this purpose and shall provide non-utility entities 15 days to respond to the solicitation. Each utility shall review the proposals and select programs that are cost-effective and provide reliable, near term gas savings. The utilities shall submit their recommendations for funding non-utility proposals, including justification for selection, to the Commission's Energy Division within 30 days of the effective date of this order. The Energy Division should make its final recommendations to the assigned ALJ for final approval in consultation with the assigned Commissioner. After selection, implementers will submit revised program implementation plans through EEGA as change orders. Funds authorized herein that are not allocated to non-utilities as of February 1, 2005 shall be credited to utility gas PPP accounts and shall not be allocated to utility programs without further authorization of the Commission.

(e) Funding shall be reduced by half for programs requiring the completion of long term construction projects, such as those in the Residential and Nonresidential New Construction and the Large C&I Standard Performance Contract Program. The target goals for each affected program shall be adjusted proportionately with these changes. PG&E shall have the discretion to re-allocate the reduced amounts to either Express Efficiency or Multi-family or both, with goals adjusted proportionately with the goals for these programs

(f) Administrative costs associated with the incremental funds authorized herein shall be limited to 7% of the incremental amounts authorized herein. Utilities should allocate as much funding toward direct implementation costs as possible.

This order is effective today.

Dated December 2, 2004, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I will file a concurrence.

/s/ LORETA M. LYNCH
Commissioner